



ECONOMIC TRACTS. No. VI.

MONEY AND ITS SUBSTITUTES

By HORACE WHITE

AN ESSAY PREPARED FOR VOL. II. OF THE "CYCLOPÆDIA OF POLITICAL
SCIENCE, POLITICAL ECONOMY, AND OF THE POLITICAL HISTORY
OF THE UNITED STATES." EDITED BY JOHN J. LALOR

*(Issued in advance, by permission of the Publishers, Messrs. Rand, McNally,
& Co., Chicago)*

NEW YORK
THE SOCIETY FOR POLITICAL EDUCATION
4 MORTON STREET
1882

COPYRIGHT BY
G. P. PUTNAM'S SONS.
1882.

MONEY AND ITS SUBSTITUTES.

AFTER the discovery of gold in California, and before the government had established a mint there, private parties manufactured coins of the weight and fineness of American gold coin, and even of subdivisions as low as twenty-five cents. These were not counterfeit, the inscriptions upon them being different from those upon the coins manufactured by the government. They denoted expressly that they were made by private individuals ; and, being so, they were, of course, not legal tender. Yet, as they contained the same amount of gold as the government coins, and as the public had confidence that the makers would not cheat by putting in a less quantity, they passed as readily as the money coined by the government, and were in fact worth as much, not merely in California, but in every part of the world. Prior to the issuing of these coins, the California miners and merchants conducted their exchanges by means of "dust ;" that is, gold in the form in which it was found in the *placer* diggings and river-washings. This gold passed from hand to hand by weight or by guess-work. A sack of flour was worth so many grains, a barrel of sugar so many, a quarter of beef so many, a pair of boots so many, etc. Obviously, it was a great convenience to dispense with the trouble of weighing gold every time a man wished to buy or sell any thing. The government was a long way off, and busy about other things, and knew little of its newly acquired possessions on the

Pacific. It had received as yet but slight information of the needs of the settlers. It allowed them to go their own way, and do pretty much as they pleased; and, in fact, no harm resulted from this private coinage. Whenever a want arises in human society, somebody will come forward to supply it. California wanted coins to take the place of "dust:" private individuals got the necessary machinery together, and established a shop to manufacture coins. They naturally adopted the forms and weights to which the public were accustomed. If California had been an English colony, they would have adopted the form and weight of English coins; if French, they would have taken those peculiar to that nation. But, in fact, the forms and subdivisions of the metal were of no importance to the value of the coins: this depended wholly upon the weight and fineness of the substance coined. In due time the government set up its own mint in California, and the private coiners disappeared because there was no further use for them.

Now, it is a perfectly scientific use of terms to call these early California coins and dust packages "money;" and the illustration serves our present purpose as well as a hundred examples which might be drawn from the pages of ancient history. The literature of the subject is overwhelming in extent and variety; but reading the whole of it would give no clearer idea of what money is, in the scientific sense, than observing the successive processes by which the isolated settlers of California carried on their exchanges with each other,—first, dust; second, private coins; third, government coins. It is scientifically accurate to say that all three were money; although in the modern acceptance of the term a distinction is made between coin and bullion, the word "money" being more commonly applied to the former.

DIFFERENT KINDS OF MONEY.

Now, supposing that California, instead of being rich in gold, had been equally rich in furs or tobacco, and had possessed no gold at all, all the other circumstances of her early settlement being the

same: how would trade have been carried on? We need not resort to any abstruse chain of reasoning to answer this question; since we know, from the history of our own country, exactly what was done in like circumstances. Our ancestors in Maryland and Virginia, before the Revolutionary war, and for some time after, in default of gold and silver, used tobacco as money, made it money by law, reckoned the fees and salaries of government officers in tobacco, and collected the public taxes in that article. It is a curious instance of the survival of old customs, that certain fees of court officers in the District of Columbia are computed in tobacco money to this day.¹

Coon-skins, beaver-skins, musket-balls, and almost every thing else possessing value, and not too difficult to handle, have been used at various times in our own country as money; in some cases being legal tender, and in others not. Furs and skins of various sorts are still employed as money at some of the trading-posts of the Hudson's Bay Company. Chevalier tells us, that as late as the year 1866 hand-made nails were used as money in certain secluded villages in France. When Cortez invaded Mexico, he found the people using grains of cacao as money for small transactions. Salt, leather, olive-oil, and dried fish have been employed as money in modern times. According to some writers, cattle serve the purposes of money among the tribes of Central Asia now, although others maintain that they merely constitute a standard of value; that is to say, a camel is reckoned to be worth so many head of cattle, a horse so many, a tent so many, when camels, horses, and tents are bartered against each other, the cattle themselves not being used as a medium of exchange, or brought into the transaction, except for purposes of reference.

¹ This anachronism in finance was discovered by the writer in the course of an examination of the laws of Maryland relating to tobacco currency. In October, 1780, a law was enacted fixing the rate of tobacco fees at 12s. 6d. per hundredweight. In 1806 all tobacco fees were abolished in Maryland, and Federal money substituted for them. But meanwhile the District of Columbia had been ceded to the United States; and the old Maryland laws continued in force there, except as specifically changed by Congress. Changes were made in the District by piecemeal; and it so happens that the fees of the clerk of the Supreme Court of the United States, in cases where the government itself is a party, are still computed in pounds of tobacco, and settled at the treasury by the old statutory valuation of tobacco. The fees of the marshal of the District of Columbia were computed in tobacco down to a recent period.

EVOLUTION OF METALLIC MONEY.

Following the observed course of trade from the earliest times and through all stages of civilization, it will be seen that money must needs have some utility and exchange value of its own. It must be serviceable to human wants, and must be the creation of labor. Any thing possessing these attributes may serve the purpose of money. Some things will serve these purposes better than others. Some are more durable, more portable, more divisible, and steadier in value, than others: in a word, some things are more convenient than others to answer the needs of mankind as instruments of exchange. Mankind have experimented upon nearly all the substances in nature to ascertain what things are the most convenient. They have held no general congress to decide the question by voting; nor would such congress, if held, have been able to decide any thing. They have experimented precisely as they experimented with stone, bronze, and iron as cutting-instruments in their daily life; discarding the worse instrument and adopting the better, from time to time, as the inferiority of the one and the superiority of the other became manifest. Although the early American colonists used tobacco, coon-skins, beaver-skins, musket-balls, and other inconvenient things as money, they did so from no want of knowledge that gold and silver were far preferable. They had no gold and silver, or not sufficient for their needs. What little they had, they were obliged to send abroad to pay for indispensable articles. As soon as they became rich enough to buy gold and silver, or to retain what they produced, they abandoned the tobacco and coon-skin currency. Generally speaking, it is accurate to say that mankind have educated themselves by slow degrees to understand what substances and things are most suitable to answer the purposes of money. The precious metals came into use in the earliest historic period. Silver was employed as money in the time of Abraham, and then passed by weight. Iron, lead, tin, copper, and bronze were successively used by the Greeks and Romans, but were displaced at an early day by gold and silver,

except for very small transactions. It would require more space than we have at our disposal to go into the history of these changes. We may say briefly, that the human race learned by experience that metallic substances were better adapted to serve their needs as money than other substances, and that gold and silver were better adapted to this end than any other metals. The reason why they are so may be explained in a few words.

ATTRIBUTES OF THE PRECIOUS METALS.

1. These metals possess much value in little weight; they are portable; they can be carried in one's pocket in sufficient quantity to answer ordinary needs. Their superiority in this regard over tobacco, beaver-skins, and the other kinds of money we have mentioned, including the baser metals, is apparent at a glance.

2. These metals can be divided and subdivided to any extent without losing any part of their value, whereas most of the other things we have described lose very much of their value by being cut in pieces. Ten gold dollars are always equal to an eagle, and can be converted into an eagle, or the eagle can be converted into ten dollars, at a trifling expense.

3. These metals are not subject to loss by exposure to the atmosphere or by the lapse of time, and to very little wear and tear by handling. They do not rust or decay, and very few substances in nature produce any injurious or corroding effect upon them by contact.

4. They are susceptible of receiving a fine impression in letters and figures denoting their value, and are not easily counterfeited; that is to say, they are well fitted to be coined.

5. They are homogeneous, — always of the same character. There is no such thing as inferior gold or inferior silver. There is good iron and bad iron, good tobacco and poor tobacco. Cows were once receivable for taxes in Massachusetts: and Professor Sumner remarks that the poorest cow was always tendered to the tax-gatherer; and thus the public treasury became the owner, eventually, of nearly

all the scrawny cattle in the colony. Nothing is well suited to answer the purposes of money if there are degrees of goodness in different lots of the same article.

6. These metals possess value apart from their utility as money. They are useful in the arts and for purposes of ornament. Undoubtedly their use as money stands for the larger part of their value at the present time. If they should cease to be used as money, and the whole existing mass of both metals be thrown upon the market to sell for what the gold and silver smiths could afford to pay for them, they would fall enormously, and the further production of them would cease. But because these metals are so well adapted to serve as instruments of exchange and measures of value, their use as money will continue; although, as the world advances in civilization, the actual handling of coin or bullion tends to diminish rather than to increase. Although their use as money now constitutes the chief part of their value, it was their utility for other purposes which caused them to be first selected and employed as money. It is quite impossible to conceive that mankind would choose, as their measure of all values, an article which was itself of no value, and to which they attached no importance. Gold and silver have been chosen to the office of money by the process of natural selection. We might say that they have been self-elected, and we might add that no money which is not self-elected is good money. Any thing which requires the aid of the sheriff to make it go is emphatically bad money.

STABILITY OF VALUE.

These metals are also very stable in value, — a circumstance which arises from the fact that there is so large a stock existing in the world at all times in comparison with the quantity annually yielded by the mines, or lost by wear and tear. The amount of gold in the world, coined and uncoined, may be assumed to be equal to five thousand million dollars, and of silver nearly as much. The annual addition to this stock is about one hundred and fifty millions, or, say, one and one half per cent of the whole. The loss by abrasion is

supposed to be not more than one per cent in twenty-five years. The loss by fire and shipwreck, and other accidents, is probably greater than the loss by abrasion ; but there are no data for determining what the aggregate amount may be. It is evident that the existence of so great a mass of these metals, with so little disturbing force in the way of increase or diminution, must (other things being equal) give them great steadiness of value as compared with articles of which the quantity is susceptible of great variation of supply. It is not denied that variations in the value of these metals do occur, measured by the amount of commodities they will buy ; but these variations are so small, that they can only be detected in long periods of time. The value of an ounce of gold is the average amount of other things, useful or necessary to mankind, which it will buy ; and this average must be ascertained by taking a sufficiently long period to exclude errors arising from the elasticity of prices, — the alternation of what are called good times and bad times, periods of speculation and periods of panic. In striking this average we must also make allowance for the progress of mankind ; that is, for the cheapening of production by new inventions and discoveries : for, although a given weight of gold or silver will now buy only one-eighth as much food or labor as it would five centuries ago, it will buy a much greater quantity of clothing, fuel, books, iron, transportation, light, and other comforts brought into existence by the ingenuity of successive generations of men ; that is to say, the value of the precious metals as compared with food is much less than it was in the year 1400, but is greater as compared with nearly every thing else.

SUPPLY AND DEMAND.

The law of supply and demand governs the value of these metals as of other things. The two principal events in modern times which have affected the value of gold and silver were the discovery of America in 1492, and the discovery of gold in California and Australia in 1848-49. The annual production of the precious metals before the discovery of America, according to Professor Soetbeer,

was less than a million dollars per annum. In the sixteenth century it rose to eleven million dollars, in the seventeenth to twenty-two million dollars, and in the eighteenth to fifty-five million dollars, per annum; but this increase, great as it was, was surpassed in the years immediately following the discoveries in California and Australia. The annual production of the two metals rose to more than two hundred million dollars in 1852, of which a hundred and seventy-four million dollars was gold; and the average production from 1849 to the present time has been not far from a hundred and sixty million dollars per annum. There was a great and permanent rise in general prices during the century following the discovery of America. The amount of gold and silver in circulation in the year 1600 was probably four or five times as great as it had been a century earlier, and the prices of agricultural products in Western Europe rose in a corresponding ratio; that is, they quadrupled in one hundred years. Difficult as it is to trace cause and effect in dealing with the prices of commodities and the quantity of money existing at different times, there is a general agreement among economists and historians that the great and permanent rise of prices in Europe in the sixteenth century was produced by the influx of the precious metals from America, and that it was proportionate to such influx. Mr. J. S. Mill, writing in 1847, considers this the only case in which a rise of prices up to that time could be shown to be due to an increased supply of the precious metals. The progressive advance in prices was checked in the seventeenth century, probably by the great increase of trade, which, beginning in Holland, extended to Germany, Sweden, England, France, India, and America, and which is supposed to have counteracted the influence of the new supplies of money by an increased demand for it. Adam Smith says that the rise of general prices consequent upon the influx of silver from America ceased about the year 1636, and that during the remainder of the century there was a decline of prices, taking the average price of wheat as a standard, and that this decline continued during the first half of the eigh-

teenth century. This decline in prices must have been much greater but for the introduction of bills of exchange and other substitutes for money, the nature of which will be explained hereafter.

Notwithstanding the increasing use of bank facilities and bank paper to effect the exchange of property without the intervention of the precious metals, the growth of trade outran the supply of money during the first half of the present century to such a degree, that general prices declined, according to Professor Jevons, sixty per cent between 1809 and 1849. The production of gold in California and Australia arrested the downward movement, and caused a reaction, and a rise of prices estimated by statisticians at twenty to forty per cent. Professor Jevons estimates the rise from 1849 to 1857 at thirty-one per cent. Mr. W. L. Fawcett (*"American Handbook of Finance"*) concludes that the advance of prices due to the new supplies of gold has been equal to forty per cent.

DEFINITION OF MONEY.

We are now prepared to give the scientific definition of money. Money is a substance possessing attributes which fit it to serve as a common measure of value, and which make it, in the estimation of mankind, an equivalent for all other kinds of property. We can conceive of other measures of value which are not in themselves valuable; as, for instance, a scale of prices in which all kinds of property are compared with each other, showing how many sheep ought to be given for a horse, how many pounds of coffee are equal to a barrel of flour, etc. But such a scale of prices would not be an equivalent. It would not be rendering an equivalent if I should obtain a beefsteak from my butcher, and tender him in return nothing but a scale of comparative prices, showing him how much sugar he ought to be able to procure in exchange for a beefsteak. Again: we can conceive of other equivalents which are not good measures of value; we have already described some of them. The house in which I live is the equivalent of some thousands of bushels of wheat; but it is not a good measure of value, because it is not divisible or portable,

and because it is liable to decay and eventually to become worthless. It is a mistake to say that money is only a sign or representative of value. This is true of the various substitutes for money ; but it is not true of money itself, whether the kind of money employed is a piece of gold, a beaver-skin, a block of salt, or a dried codfish. Each of these things possesses its own utility in the way of serving human wants. The piece of gold serves human wants by answering the need of men for an instrument of exchange and a measure of value as effectually as a beaver-skin does by protecting his body from the cold. True, you cannot eat gold, or wear it on your back, neither can you eat or wear a paving-stone ; yet the paving-stone is valuable in the way of promoting human intercourse and traffic, and so is the gold. It would be just as absurd to say that a paving-stone is a sign of value as to say that gold is a sign of value. It is sometimes said, that, if mankind would come to an agreement to accept some other thing as a universal equivalent and measure of value, that other thing would be just as good money as gold. The answer is, that mankind will not come to any such agreement. Mankind have already come to an agreement upon this subject, not by treaty, not by convention, not by the action of their governments, but by tacit consent founded upon experience. They have brought into requisition various substitutes for money which are of vast and increasing advantage to trade and industry ; and so far as these have come into use by tacit consent, founded upon experience, they will prove lasting and beneficial. None of these substitutes, however, possess the character of equivalency, nor do any of them serve as measures of value. The bill of exchange, the bank check, the bank note, which I give to my creditor, is in itself nothing but a piece of paper with ink-marks upon it. Its original value as paper is destroyed by the ink-marks. It gives to him the right to obtain a sum of money, or goods equivalent to that sum ; but it is not money. We are not now stickling about the names of things, and drawing distinctions where there is no difference. As the subject of this paper is money and its substitutes, it is necessary, first, to

obtain a clear idea of what money is, in order that we may the better obtain an idea of what its substitutes are, and how great a service they have rendered, and are capable of rendering, to human society.

THE UNIT OF VALUE.

We have seen that mankind have tentatively and experimentally used a great number of things as money, and have finally chosen gold and silver as the best, and have come to such a world-wide agreement upon this point, that all men act upon it as readily and unconsciously as they draw atmospheric air into their lungs. Every operation in life that is not purely intellectual is an operation of dollars and cents. I cannot walk down town without wearing clothes and shoes, and these are matters of dollars and cents. I cannot sleep without a bed to lie in and a roof over my head, and these are matters of dollars and cents. Dollars and cents are the measure of the exertion I must put forth to supply my daily wants. Under both law and practice in this country, the dollar is twenty-five and eight-tenths grains of gold nine-tenths fine; and, however numerous and multifarious may be the existing substitutes for money,—however vast may be the exchanges effected by banks and clearing-houses and by paper instruments of every kind,—twenty-five and eight-tenths grains of gold nine-tenths fine is the measure of every dollar in the whole mass. The amount of labor required to produce this dollar at the mines is equal, in the average, to the amount required to produce a dollar's worth of wheat, cloth, iron, or other commodities.

BI-METALLISM.

We have thus far classed silver and gold together under the common designation of "the precious metals," as constituting one instrument selected by mankind to serve as a measure of value and an equivalent in exchange. But it follows from what has been said, that, unless these metals bear a fixed ratio of exchange with each other, they cannot both be a correct measure of value. If they vary with respect to each other, one of them will be chosen as the stand-

ard, and the value of the other will be reckoned as so many units or parts of the standard. Which one of them shall be chosen will depend, not upon the action of governments, but upon the preference of the people as exhibited in their daily practice. All that government can do is to declare what shall be legal tender in settlement of past debts. As to the trade which goes on from day to day, and as to future contracts and undertakings, it can do nothing to change or modify the practice which the convenience of business may dictate. Government can enable me to pay my last month's grocer's bill in silver, paper, leather, or any thing which it sees fit to make legal tender; but it cannot compel the grocer to sell me another bill of goods, except for gold or the equivalent of gold, if he chooses to demand it. Usually governments will conform their legal-tender laws to the practice of business, departing from it only under a real or supposed necessity, as when, for instance, they desire to make forced loans from their subjects by issuing their own notes in exchange for the property of citizens.

For a period of about two hundred years prior to 1872 silver and gold were used in most parts of Europe and America indifferently and alternately as money, in a ratio between fifteen and sixteen of silver to one of gold. The public convenience was served by such use. If we are asked why the public convenience was served by the two metals then, and is not equally served now, we can only say that it was probably because trade had not then assumed such proportions as to make the weight and bulk of silver felt as a serious inconvenience to business, and because the variations in the market-value of the two metals were comparatively slight. The largest variation in the period mentioned was that caused by the great gold production of California and Australia, — viz., an advance in the gold price of silver equal to 1.656 per cent, — the ratio of the two metals having fallen between the years 1851 and 1859 from 15.46 to 15.21. In 1861 the ratio again stood at 15.47. It is immaterial, in a practical point of view, whatever be its scientific interest, to inquire what has caused civilized mankind to prefer the single gold standard to

the double standard, — as immaterial as it is to know whether the north pole is surrounded by solid ice or by an open sea. As a matter of scientific concern, it is undoubtedly important to investigate these questions. It would be an addition to the sum of human knowledge to know exactly why our forefathers liked silver well enough to use it as money of account, — that is, money in terms of which all other things are reckoned, — and why we do not. I have my own opinion as to these reasons. I look upon the transition from the double standard to the single gold standard as a step in the world's progress brought about by natural selection, — by the same process which led to the adoption of iron in place of stone implements for cutting, the same which led men to adopt the precious metals as money, instead of the more bulky and perishable articles which were formerly used. I hold that all arguments which do not address themselves to this point of view are a waste of breath. Volumes upon volumes have been written to show that it would be better for mankind to return to the double standard. Two international conferences have been assembled at Paris to consider the question, and a third is now talked of. These conferences are and will be useless ; because they cannot persuade the commercial world to do what its interests are opposed to, or to desist from doing what its interests favor. That its interests do favor the single gold standard is sufficiently proved by the fact that the single gold standard has come to pass. Most of the arguments for the double standard go upon the presumption that there is some virtue in legal-tender acts to compel people to keep their accounts and make their trades in a kind of money which they do not like. But really a legal-tender act, as already said, exhausts itself upon what is past and gone : it exerts no force upon the present or the future. During the whole period of suspension of specie payments in this country (from the 13th of January, 1862, to the 18th of December, 1878), the business of ascertaining the gold value of greenbacks was carried on daily and hourly in the New-York Gold Exchange, except during the brief period when Congress attempted to close the gold-room by law, with

the disastrous result of putting up the premium much higher than it would otherwise have been.

In 1873 silver began to decline rapidly in value, as compared with gold, partly by reason of its demonetization in various parts of Europe, partly in consequence of increased production in the United States, and partly in consequence of a falling-off in the demand for silver in India. The decline since 1873 has been equal to fifteen per cent. So great a decline was well calculated to stir up doctrinaires and busybodies to put things to rights by printing essays and passing resolutions. But it is equally well calculated to confirm all other people in the notion that a metal so liable to depreciate is not a good recompense for their labor, or a fair equivalent for their property. I have yet to see the bi-metallist who governs himself in his daily business by any different principles from those of the mono-metallist. Both act as though they considered gold money preferable to silver money. It is only in academic discussions, on the lecture platform, in Congress, and in Paris conferences, that you learn that silver is as good for trade as gold. Elsewhere, perfect unanimity exists that gold is better for trade than silver, and better than silver and gold together. It is this conjoint, simultaneous, involuntary preference of civilized men, expressed, not by words, but by acts, day by day, year in and year out, for gold money as against silver money, that has brought about the single gold standard in the commercial world. Nothing short of a like preference expressed in like manner will ever bring back the silver standard or the double standard. If the bi-metallists in the Paris conference had set about persuading the public *not to prefer gold*, instead of trying to bring the sheriff to the aid of silver, they would have been pursuing their end by rational means, whether the end was exactly rational or not. By following the opposite policy, they kept the cart before the horse all the time, and of course made no headway.

It would take more space than we have at our disposal to go over the heads of the dispute between the bi-metallists and their opponents. It is worth remarking, that none of the evils prophesied

to flow from the general adoption of the gold standard in the commercial world have come to pass. It was said that the United States could not possibly resume specie payments on the single gold standard; but, if we could do such a wonderful thing, they said that it would put such a strain on the gold resources of the world, that prices would be greatly and permanently lowered, and severe distress would be inflicted upon mankind. Yet the United States did resume specie payments on the gold standard, and now Italy has got herself in readiness to do the same thing; and general prices have not declined, but, on the contrary, have been rising continuously since 1878.

SUBSTITUTES FOR MONEY.

It has been already remarked, that, as civilization progresses, the actual handling of coin and bullion tends to diminish rather than to increase; its place as a medium of exchange being filled by other and more convenient instruments, while its function as a measure and standard of value remains in force all the same. This brings us to the second part of our theme,—the substitutes for money. Mr. W. L. Fawcett very pointedly says, that “the proportion of actual coin money in use in the traffic of any country is the measure of the imperfectness of its banking system.”

Exactly at what period in the world's history bills of exchange came into use is not known. Operations having some resemblance to banking can be traced in the history of ancient Greece and Rome; and there is abundant evidence that the governments of the Ancient World—Greek, Roman, Carthaginian, and Chinese—knew how to obtain loans by the issue of representatives of money made of leather, iron, or tin, upon the same principles that modern governments obtain them by the issue of paper. Bills of exchange were used to a limited extent in the fourteenth and fifteenth centuries: they came into extensive use about the beginning of the seventeenth century, and their employment has increased progressively and prodigiously to the present time. As money is a labor-saving machine to avoid the inconvenience and uncertainty of barter, bills of ex-

change are likewise a labor-saving machine to avoid the use of money. It was found in practice that the goods sold by Germany to Sweden, for instance, would pay for the goods sold by Sweden to Germany, — the one would offset the other without the employment of money, provided the individual sellers of German goods could find the individual buyers of Swedish goods, and swop their claims and obligations. A common place of meeting for such buyers and sellers would in due course have led to the establishment of banks to adjust these transactions by the simple process of writing debit and credit here and there in a set of books. And, in fact, this came to be and still is the principal function of banks. But banks had their beginning, historically speaking, in another set of causes. The old banks of Venice, Genoa, Sweden, England, and France were established, in the first instance, to extend financial aid to their respective governments. The banks of Barcelona, Amsterdam, and Hamburg were founded for purely commercial purposes.

The multifariousness of the coins of the middle ages, and their uncertain value, were the plague of commerce. They consisted of crowns, florins, ducats, pounds, dollars, etc., more or less debased by the action of monarchs, and more or less worn and clipped. The main object of the early banks was to receive these heterogeneous coins from traders, and give in return the full-weight money of the locality; so that a bill of exchange drawn on Venice, for instance, for so many ducats, might be readily paid in ducats, instead of a miscellaneous assortment of coins, good, bad, and indifferent, which must needs be examined and certified by an assayer before the payee would accept them: in other words, the early banks of Venice, Amsterdam, etc., created a "money of account" in their respective localities; or, if they did not actually create it, they preserved it. Bank money, in those times, always commanded a premium over street money, because its value was always guaranteed, always fixed, never variable. The miscellaneous coin deposits of merchants were credited to them on the bank's books at their ascertained value in ducats; and they could draw out the corresponding

sums in ducats at pleasure, or could discharge their own debts by turning over to others the sums standing to their credit on the bank's books, without drawing out any money whatsoever.

THE EVOLUTION OF BANKING.

We have not time to recite the history of banking development ; but one can see how natural the transition would be from the sort of bank we have described to the modern bank. Thus, for instance, the merchant who had made a deposit of coin would soon perceive that the bank's certificate of deposit was more convenient to handle, and less exposed to robbery, than the coin itself ; and so bank-notes would come into existence. The first bank-notes were merely certificates issued against a corresponding amount of coin or bullion : they were like warehouse receipts, issued against grain, cotton, or other property taken on storage. The bank itself would soon perceive that a certain portion of the deposits would always be on hand, since some persons would always be sending in as much as others were drawing out, and that this average amount on hand could be profitably employed in the way of loans, for which interest could be obtained. Experience would show that these loans must be secured by pledges of property, in order to guard against loss ; and inasmuch as bills of exchange are brought into existence by the sale of property, and are in fact title-deeds to property in transit, they would constitute the best security for such loans. Consequently the discounting of bills of exchange — that is, furnishing ready money to the seller of the goods, and collecting it from the buyer at the agreed time of payment — would be the most natural employment of the banker's balance of deposits on hand. Then, seeing that the bills of exchange were regularly paid at maturity, and that new lots were coming in as the old ones were going off, it would be very natural to regard the bills themselves as deposits, and to credit them as so much money to the accounts of the merchants sending them in, and to call them, in a general way, "money." For all the purposes of the banker they are money ; because he can send them to the places

where they are payable, and either get money for them, or pay his own obligations with them. For all the purposes of the merchant they are money ; because he can draw his checks against them, and pay his debts with them. What really happens here is, that the various bills of exchange arising in all parts of the country, or of the commercial world, representing goods bought and sold, offset each other. Barter is going on, as it must have gone on before any money whatever was invented, but with this difference, — that, instead of men swapping directly a stone hatchet for a dozen arrow-heads, or a day's labor for a haunch of venison, they now swop by a recognized standard of value (*viz.*, the gold dollar of twenty-five and eight-tenths grains), but do not bring the dollar itself into requisition, or only to a very limited extent. The dollar is the common denominator, but the denominator is used only for purposes of reference. Thus it happens that the balances settled at the New-York Clearing-House in one week may amount to one thousand million dollars, — a sum larger than the whole amount of gold, greenbacks, and national bank-notes in circulation in the United States. All the checks, drafts, and bills of exchange that go to the clearing-house are loosely termed "money," because they answer nearly all purposes for which money is ever used. They are really the signs and evidences of commodities bought and sold. The only difference between the three kinds of paper instruments here named — checks, drafts, and bills of exchange — is a difference of locality or territoriality. The check is usually payable in the same town or city where it is drawn ; the draft is payable in a different town or city in the same country ; and the bill of exchange is payable in some other country. Checks are usually payable at sight ; drafts and bills of exchange may be at sight, or a certain number of days after sight. These differences are unimportant as regards the principle we are considering.

PRIMITIVE AMERICAN BANKS.

It is seen, therefore, that a bank is really a place where swapping is done by wholesale, where merchants and producers, buyers and

sellers, meet to exchange their various goods and services without the use of money. The subject is somewhat complex, and perhaps an illustration will serve to make the facts clearer. In my younger days, which were passed in a small town in the then Territory of Wisconsin, there was a country store at which all the new settlers did their trading. Money was very scarce, what little the people had being sent off to the government land office at Milwaukee, to pay for the land which had been entered under the pre-emption laws. The country store sold dry-goods, groceries, etc., and bought wheat, pork, butter, eggs, and whatever was produced for sale in the neighborhood. A rude warehouse was attached to the store to hold the bulkier products; and a line of teams was in motion, carrying the surplus farm-products from this store to Milwaukee, some eighty miles distant, and bringing back to it the goods required by the community. Each head of a family in the town had an account on the books of the storekeeper, where he received credit for what he brought in for sale, and was debited for what he took away. And so things went on from year to year. After a while other stores were established which did business in the same way, giving people the benefits of competition. In course of time money became more plentiful in consequence of the community sending more wheat, etc., to Milwaukee, than the value of the goods they brought back; and gradually the stores were enabled to buy wheat and pork, and sell molasses and other things, for cash, or on short time. Now, the store we have described united the functions of a merchant and a banker. It was the place where all the buying and selling in the community was done by writing debit and credit opposite each man's name, according as he brought in one kind of property, and took away another kind, without the use of money. This is the simplest representation that can be given of the sort of business transacted by a modern bank. There are hundreds and thousands of these country stores in the West to-day, whose proprietors would probably be amazed to be told that they are bankers, but who are performing, unconsciously, all the functions of bankers, except that of issuing

circulating notes. In the case of which I have spoken, remittances to Milwaukee by individuals other than the storekeeper were commonly made by buying the storekeeper's drafts on his correspondent in that city, just as we now buy bank-drafts.

It will be seen that there was a circulation of the goods and products of the community carried on by means of the store, and that the store itself furnished the capital needed to set the business going, and tide over the interval between seed-time and harvest. Now, what does the modern bank do other than this? The modern bank does not deal directly in merchandise. It furnishes capital to merchants, and settles their balances exactly as the country storekeeper settled those of his customers. The bank, instead of having a warehouse in the rear to receive grain and provisions, and shelves to hold dry-goods and hardware, and a lot of teams carrying things here and there, intrusts these functions to warehousemen and merchants, to railways and steamships, holding paper instruments which are the warrants and certificates of the property itself. We need not trace the various ramifications of banking. They are all resolvable by the principles of the country store. The bank's deposits are composed mainly of these warrants and certificates, called, in the language of commerce, "checks," "drafts," and "bills of exchange."

THE GENESIS OF BANK-NOTES.

As mankind progress in civilization, the tendency and unconscious effort is always going on to dispense with the use of money, and to carry on trade by swapping. It is thus that bank-notes come into existence. Farmer A, we will suppose, sells to miller B a thousand bushels of wheat, and receives a check for one thousand dollars. If farmer A wishes to pay off a mortgage to C, or to buy a hundred sheep from D, he can turn over this check in payment, and the swap will be complete. No money will be used, but each of the parties will have obtained what he wanted just as effectually as though a bag of gold had been passed around from one to the other, and even more economically; but if A wishes to pay the wages of his

farm-hands, and to send his son to college, and to go on a journey himself, he must receive pay for his wheat in something that will circulate from hand to hand in small sums. Swopping must come to an end, and money must be brought into requisition, unless the miller draws, say, two hundred checks of five dollars each, and unless the miller's credit is so well and widely known that everybody will accept his checks. But this very rarely happens. What does happen is, that the farmer takes his check to the bank, and the bank gives him its notes for the amount. These notes will be accepted universally, because everybody knows they will be paid on demand. Thus swopping is still carried on, notwithstanding the subdivision of the check into a number of small checks, or bank-notes, or tickets, — it makes no difference what we call them. The miller, in this case, has deposited his draft on New York, or his bill of exchange on Liverpool, for the last lot of flour he sent forward into the world's circulation; the bank has credited him the amount; and, when his check came in, it issued a lot of tickets saying, virtually, that "the bearer of this ticket is entitled to the value of one two-hundredth part of a lot of flour, in existence somewhere, and can receive that value whenever and wherever he chooses. He can receive it at this bank's counter in gold, or he can receive it in property at any store, hotel, railway office, or other place of business, where the standing of this bank is known."

"CREDIT MONEY."

Much confusion has been introduced into this subject by the use of the phrase "credit money," as applied to bank-loans, bank-deposits, and bank-notes. Many people, and even some writers on political economy, use this phrase as though it had a definite signification, whereas it would puzzle the best of them to define it, or to tell what they mean by it. The only credit money in this country is the legal-tender greenback. This has nothing behind it but credit — the government credit, a good credit, but credit pure and simple. It may be said the government has a lot of gold somewhere to

redeem these greenbacks with : so it has (since the first of January, 1879) ; but the fact remains that the greenback is based upon credit, and not upon property. So is the Bank of England note, up to fifteen million pounds. This amount of notes the Bank of England puts out on the credit of the government. But bank-notes, ordinarily, are not credit money : they are property tickets, representing the swapping of goods and services, as already shown. Of course, we are now speaking of good banking, not of swindling or slovenly banking. The history of this country furnishes a great many examples of bad banking, to which the phrase "credit money" might be properly applied ; but these cases are now rare. Still less is the phrase "credit money" applicable to bank loans and deposits. What is loaned and deposited under the conditions of good banking is property in circulation. I repudiate utterly the phrase "credit money," as applied to other money than greenbacks or government issues.

Few words in the English language have been more vilely abused than this word "credit." If I have a wagon that I do not wish to use for a year, and I lend it to my neighbor at an agreed rate of hire, I have extended to him a credit. If I have no wagon, but have the money to buy one, and lend this money to my neighbor, who buys a wagon, agreeing to repay me with an agreed rate of interest, I have equally extended to him a credit. What I have done in either case is to lend him a wagon. He could make better use of it than I could for the time being ; and therefore the world is better off. It is all the same, whether I lend the wagon or whether a bank lends it. Range the world over, and you will find nothing different from this, in point of principle, in the nature and employment of credit. Credit never brings a cent's worth of property into existence, except by putting tools and implements already existing into the hands of those who can make use of them, and who could otherwise not obtain them ; but, by accomplishing this, it becomes a mighty engine of human progress. All notions implying that credit of itself, in any form whatever, calls wealth into ex-

istence by prestidigitation, are fantastic and mischievous. "Credit instruments," which we hear spoken of so frequently, are instruments for facilitating the transfer of tools and other reproductive capital from the hands of those who have them, but cannot use them, to those who have them not, but can use them. A savings bank is a credit instrument of this sort; an ordinary bank of deposit and discount is such an instrument. A draft, a bill of exchange, a bank-note, is not such an instrument: it is, as shown, a ticket for circulating property, entitling the holder to such and such a share of the world's existent consumable commodities. When these commodities are consumed, and cease to exist, the corresponding tickets cease to exist also, and new ones only come into life as new commodities are produced. The drafts and bills of exchange are paid and cancelled, and the bank-notes come home to be redeemed. The notes may not be actually cancelled. In order to save the cost of printing, and the trouble of signing a new lot, the old ones may be re-issued, when called for, by the same kind of business needs which led to their first issue. It obviously makes no difference, except in a mechanical sense, whether, in the case of a second issue, the old notes are again used, or new ones are put out.

BANK OF ENGLAND NOTE SYSTEM.

It has already been remarked that the only credit money in existence is government money, — greenbacks in this country; Bank of England notes, up to the fifteen million pounds' limit, in Great Britain, etc. It has been shown how the greenbacks are entitled to be called credit money, and how bank-notes differ from them as to their origin, the causes which bring them into life, and which lead to their ultimate extinction. Bank of England notes are of two kinds as to their origin, although, in external appearance, there is no difference between them. In the year 1844 it was estimated, or rather ascertained, by the public authorities, that eleven million pounds of bank-notes, of the denomination of five pounds and upwards, would circulate in the hands of the people at all times, —

in bad times as well as good times, — performing the ordinary functions of internal traffic. The government owed the bank eleven million pounds, borrowed a long time before. It said to the bank, “You may issue this amount of notes without any gold reserve whatever, because experience shows that gold will never be demanded so long as the issue is not in excess of eleven millions, and so long as the public have confidence in your ultimate solvency; and, of course, you will be solvent to this extent, because we owe you that amount. We will not pay any interest on the amount we owe you (this eleven millions), because you will get interest from the borrowers of these notes. If the business requirements of the country call for more than eleven millions at any time, you may issue them to any extent, provided you have five gold sovereigns in your vaults for every five-pound note so issued in excess of the eleven millions.” This is the famous “currency principle” which is identified with the name of Sir Robert Peel. Eventually, the amount of uncovered issues was raised to fifteen million pounds by the dying-out of country banks then in existence, which were issuing notes of their own, and which it was deemed best not to disturb. But the principle was not altered in any way by turning over their note-issuing privileges to the Bank of England.

This so-called “currency principle” proceeded upon a totally different plan from that which we have described as the natural mode of creating and issuing bank-notes; which latter is commonly called the “banking principle.” The banking principle, as shown, is simply the swopping of property by retail, the swopping by wholesale being carried on by checks, drafts, and bills of exchange. The banking principle requires that an equivalent of every bank-note shall be in existence, circulating through the community in the form of pounds of sugar, barrels of flour, legs of mutton, etc. The currency principle requires nothing of the sort: it merely says, that, “since people prefer paper to gold for ordinary use, when they are satisfied of the goodness of the paper, we (the government) will give them paper up to the amount of their average requirements,

and take the corresponding amount of gold or property unto ourselves." This is virtually what our government has done in the case of the greenbacks.

The Bank of England Act has been much lauded; and so high an authority as Professor Jevons esteems it "a monument of sound and skilful financial legislation." It appears to me to be plausible and specious rather than scientific. What is to be said in favor of it is, that the government gets the profit on the sum represented by the uncovered notes, and that the security to the note-holder is always perfect. But the government could equally get the profit on the notes by taxing them when issued by banks, and it could furnish equal security by requiring the banks to deposit government bonds or consols, as is done in the case of our national banks. What is to be said against it is, that it does not conform to the natural course of things; the evolution by which bank-notes, as swopping instruments, are brought into existence, forbidding any swopping beyond fifteen million pounds, unless done by means of checks and bills of exchange. For all above this sum it requires that gold be first bought. It is arbitrary and rigid. It proceeds upon the theory that human wisdom (the wisdom of the year 1844) is a better regulator of the circulation than the silent and unperceived course of trade which creates its instruments of exchange as it goes along. It is not a sufficient answer to say that the Bank Act has worked well; since human society readily adapts itself to its environment, whether good or bad. Deprived of the use of the bank-note, which arises naturally in the mode described, British trade has availed itself of the check system to a prodigious extent. In London but little more than two per cent of the business done is transacted by means of coin and bank-notes together, the remainder being represented by checks and bills of exchange.

GREENBACKS AND NATIONAL BANK-NOTES.

Our greenback system is akin to the issue department of the Bank of England, so far as relates to the fifteen million pounds of Bank

of England notes. If Congress should pass a bill (which is now pending) to authorize the issue of gold certificates, in small denominations, to persons depositing gold in the treasury, the parallel would be complete as regards the issue of circulating notes. An illustration used by Mr. George S. Coe, president of the American Exchange Bank, New York, showing the unphilosophical character of the "credit money," embodied alike in the greenback and the Bank of England note, seems to me perfectly conclusive as to the point we are considering. Bills of exchange, says Mr. Coe—want of space compels me to condense his argument—bills of exchange are the world's international currency, drafts and checks are the currency of domestic wholesale traffic, and paper notes are the currency of retail trade. How absurd it would be to draw a lot of bills on Liverpool without sending any equivalent property to Liverpool to balance them! Suppose a syndicate of bankers in New York, about whose solvency there could be no question (or the government itself), should draw three hundred and fifty millions of such bills, and sell them to the public without sending a cent's worth of wheat, cotton, or other property abroad to correspond with them: the bills would go to England in due course, and be paid, and the proceeds would come back to us in the shape of English goods. Under the circumstances, the English bankers would be obliged to draw back on the American bankers for an equal sum. But suppose the American bankers, instead of paying the English drafts, should tender the holders of them a fresh lot of bills of exchange on Liverpool: what would be the effect of this on the trade of the two countries? Obviously it would throw the whole traffic into dire confusion. We should have received three hundred and fifty million dollars' worth of property without rendering any equivalent. We should simply owe that amount of money to England. Undoubtedly England is able to lend us that amount in the usual way in which time loans are negotiated, but not, by any means, in this way. Perhaps we should be able to invest that sum advantageously in our new country, after due consideration; but this is not certain.

At all events, we could not do so in a hurry. Clearly the trade of the world would be subjected to a wrench like that caused by throwing a stone into a delicate and complicated piece of machinery.

Apply this analysis to the drafts and checks floating about in our own country, and the same result is reached. Apply it to the paper currency, and it comes to the same thing, so far as this currency is not backed by property circulating alongside. It is not necessary to follow any particular note around, and see what course it takes, how long it stays out, and when it comes back to its place of issue. When trade is brisk, the notes, if issued according to the banking principle, will be plentiful: when trade is slack, they will find their way home for redemption. This is as it should be. But, if there is no property in circulation corresponding to the notes, the currency will be rigid and inelastic. It will bear no relation to the wants of trade.

Now, I do not think that our existing greenbacks (three hundred and fifty million dollars) do much harm, although they are bottomed upon a false principle. It is their example chiefly that is pernicious. The national banking-system, co-existing with the greenback system, furnishes elasticity to the whole, although our bank-note system is not as elastic as it ought to be: there is too much machinery and red tape about it. It takes too much time to get out new notes when they are needed; and the government has discouraged them, also, by over-taxation. The machinery and red tape, however, are, in the interest of the note-holder, to furnish him absolute security. Whether such security can be provided with less circumlocution and less sacrifice of loanable capital, is still an unsolved problem, but is coming up for solution soon, since the bonds which constitute the security of the national bank-notes are being rapidly paid off. I think such security can be provided even after that eventuality. It is only a question between good bank management and bad, — a question whether the government is strong enough to enforce the good, and to prohibit the bad. In lieu of bond security, let the liability of shareholders of national banks be made unlimited *as to circulating*

notes, and also make note-holders preferred creditors of failed banks. With these two provisions, in addition to the other safeguards of the national banking act, the bond security might be safely dispensed with. The unlimited liability of shareholders has always served to prevent depreciation of the notes of the Scotch banks, notwithstanding some disastrous failures among them, notably those of the Western Bank of Scotland, and the City of Glasgow Bank. At all events, it would be a great mistake for us to perpetuate or prolong a national debt merely to furnish security for bank-notes. While the debt exists, while the government has not the means of paying it off, and relieving the tax-payers of the annual interest charge, it may be usefully employed as security for the holders of bank-notes; but to tax the people longer than is necessary for this purpose would be indefensible, and would furnish good ground for the charge made against the national banks that they oppress the community. That charge is now without foundation. The banks have neither created nor protracted the national debt. So long as the debt exists, it is immaterial who holds it, — whether national banks, savings banks, trust companies, life-insurance companies, or private persons. In a paradoxical world, nothing more whimsical can be found than the unpopularity of the banks arising from the fact that their notes are secured by government bonds. Before the war their notes were either not secured at all, or were less perfectly secured; yet they were exposed to no such loss of popularity. They were always popular so long as their notes were good. Their unpopularity now, so far as it exists, rests solely upon the fact that their notes are and must be always and universally good. Because their notes are secured by government bonds, unthinking persons conclude that the government pays them a bonus.

The literature of money is too vast to be catalogued within the scope of an ordinary volume. The work of Mr. Francis A. Walker, entitled "*Money*" (New York, 1878), will give the reader some conception of the multitude of authorities which can be quoted for almost every conceivable notion pertaining to the subject. The best

English text-book is Professor Jevon's "Money and the Mechanism of Exchange" (American reprint, New York, 1876) ; and the best American, is Mr. W. L. Fawcett's "Handbook of Finance" (Chicago, 1877). Mr. Walter Bagehot's "Lombard Street" (American edition, New York, 1874) has a deservedly high repute, but is better fitted for the use of bankers and advanced students than for popular instruction. Professor Sumner's "History of American Currency" (New York, 1874) is a valuable and instructive sketch of the evolution of money and its substitutes from the colonial period to recent times.

